

# DRUMMOND COUNTY RAILWAY DEAL.

## The Scandalous Agreement Made by the Laurier Government.

### How an Influential Liberal Made a Fortune and Tarte Bought a Newspaper.

#### The Deal Would Have Been Worse, But the Senate Forced the Government to Alter it.

Of the many scandals which have disgraced the Administration of this country during the regime of the present Liberal Government, the Drummond County Railway Scandal is not the least. By means of it many hundreds of thousands of dollars of the people's money found their way into the pockets of a Grit organizer and speculator who acquired a controlling interest in this railway after the Liberal Government came into power, and who acquired that interest not for the purpose of operating the road, but solely for the purpose of selling it to the Laurier Government at an enormous profit.

#### CONSTRUCTION OF THE DRUMMOND COUNTY RAILWAY.

The Drummond County Railway may be said to consist of two portions; the first (called the old portion) is 90 1-2 miles in length, and extends from Ste. Rosalie to Moose Park, with a branch from Drummondville to Nicolet; the new portion is 43 1-4 miles in length, and extends from Moose Park to the junction with the Grand Trunk Railway at Chaudiere.

The road was built as a mere lumber road. The persons who inaugurated the scheme built the road in order to afford access to their lumber lands. Subsequently, as the road proved unprofitable, it began to dawn upon them that they might do better than operate it as a mere lumber road. Accordingly, they attempted to enter into negotiations with the late Conserva-

tive Administration for the purpose of disposing of the railway to the Government. These negotiations were not successful, as the Department of Railways and Canals considered the road to be practically worthless.

#### FINANCIAL CONDITION OF THE COMPANY.

Financially, the road was bankrupt. Its floating debt increased from year to year, until in 1897 it amounted to \$297,396. Its construction had been entered upon in 1889, and during the nine years in which portions of it had been in operation not a single dollar of dividends had been paid to the shareholders. When 90 miles of the road were in operation its entire equipment consisted of one first class car, one second class car, one baggage car, nine box cars, twenty flat cars and five engines. This formed the total equipment of the railway up to the time it was acquired by the present Government.

According to the sworn returns of the Company, the net earnings in 1897 were \$33,101.61, and the average net earnings for the three years, 1895, 1896 and 1897, were \$33,124.28. But, if the road had been maintained and operated in the same manner as other railways in Canada, there would not have been one dollar of net earnings in any year. The average annual amount per mile spent for the maintenance of railways in Canada is \$460. Upon this railway the sum of \$186 only per mile was expended annually for maintenance.

## COST OF THE ROAD.

Mr. Collingwood Schrieber, Chief Engineer of the Department of Railways and Canals, estimated the cost of this road at \$1,535,000. In making this estimate, he assumes that the road was built according to the standard fixed by the subsidy agreements. As a matter of fact, the road was not built up to that standard. The Company, however, received the following subsidies in aid of the construction of the road:

From Dominion Government.....	\$287,936
From Provincial Government.....	347,420
From Municipalities.....	15,000

\$650,356

Deduct this amount, \$650,356, from \$1,535,000, the cost of the road, as estimated by Mr. Schrieber, and there remains a balance of \$884,644, representing, at the outside, all the money which the Company ever put into the road.

## ATTEMPTS TO SELL THE ROAD.

The alleged capital of the Company was \$400,000. The road never paid one cent of dividends to the proprietors; and after expending the sum of \$650,356, received in subsidies as above mentioned, they had incurred the floating debt of \$297,396, above referred to. Under these circumstances, the Company made various attempts to sell the road. In the first place, they attempted to dispose of it to the Grand Trunk Railway Company. The negotiations fell through; and then the Company, being in desperate financial straits, made several attempts to sell by giving options upon the road to various persons. They first gave an option to one Mr. William Farwell. This option was signed by all persons holding any interest in the Company, and the purchase price was fixed at \$500,000. Several unsuccessful efforts were made to sell for this sum. Finding themselves unable to dispose of the road at this price, they gave a further option to Mr. Farwell for \$400,000. Under the last mentioned option the road was offered for that sum to the late Conservative Government, which declined to accept it. In this desperate financial condition the road remained until the advent of the present Liberal Administration.

## ADVENT OF THE LAURIER ADMINISTRATION.

On the 10th July, 1896, the Laurier Administration assumed the reins of Government. The Hon. J. I. Tarte became Minister of Public Works, and the Hon. A. G. Blair became Minister of Railways and Canals. Mr. J. N. Greenshields, of Montreal, was a well-known Liberal organizer, and an intimate and personal friend and confidant of Mr. Tarte. It at once occurred to him that there was now a splendid opening for disposing of the Drummond County Railway to the Government. He took steps to acquire

large blocks of the stock. A block of eighty thousand (or one-fifth) of the stock of the Company he purchased for the sum of \$24,000. He acquired a further block of fifty thousand dollars of the stock without giving one single dollar for it. The only consideration for the last mentioned block of stock was Mr. Greenshields' promise to use "his advice and influence as a financier" in furthering the interests of the Company. Thus, for 130,000 dollars worth of stock, or nearly one-third of the entire capital stock of the Company, Mr. Greenshields gave no money consideration whatever beyond the sum of \$24,000. It was his influence, not as a financier, but as a political organizer and manipulator, which formed the real consideration.

## MR. GREENSHIELDS' RELATIONS TO MR. TARTE.

Not only was Mr. Greenshields an intimate friend of Mr. Tarte, but while negotiations were going on between the Government and Mr. Greenshields with regard to the sale of this railway the latter was actually assisting Mr. Tarte financially. About this time Mr. Tarte, who had not previously been regarded as a capitalist, purchased La Patrie newspaper in the name of his sons. Of the purchase price of \$30,000, Mr. Greenshields' cheque for \$20,000 formed a portion, and the notes for the balance of the purchase price bore Mr. Greenshields' endorsement. Both Mr. Tarte and Mr. Greenshields have stated that the latter was repaid or indemnified for all amounts which he advanced to Mr. Tarte. No information could be obtained, however, before the Committee which investigated the matter as to who provided these moneys which repaid Mr. Greenshields. Mr. Tarte absolutely declined to give any information as to where or from whom he procured the money for that purpose, and he admitted that it was not his own, and that it was provided by political friends.

The position, therefore, during the latter part of 1896, and early part of 1897, was this: Mr. Greenshields was negotiating with Mr. Blair and Mr. Tarte for the sale by the Drummond County Railway Company of its railway to the Government at the enormous price which will be mentioned later on. During the same period Mr. Greenshields was lending his cheques and endorsements to this same Mr. Tarte for the purpose of assisting him in financial arrangements, which Mr. Tarte never could have undertaken before the present Government came into power. It is not surprising, under these circumstances, that the Government agreed to pay to Mr. Greenshields, on behalf of the Company, a sum which was enormously in excess of the value of the railway and enormously in excess even of the amount which the Company afterwards agreed to accept.

During these negotiations Mr. Greenshields was shrewd enough to see that he had a good thing, and he accordingly acquired options at par upon 137,600 dollars' worth of the capital stock of the Company. These options he even-

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tually took up after he had induced the Government to purchase the road. It is well, therefore, to bear in mind that before the Laurier Administration came into power 130,000 dollars worth of the Company's stock could be purchased for \$24,000 in cash, and that shortly after the Laurier Government came into power 137,600 dollars' worth of the stock of the same bankrupt railway was worth par. It must also be remembered that upon this stock purchased at par Mr. Greenshields was able to realize an enormous profit by the sale to the Government.

#### FIRST AGREEMENT WITH GOVERNMENT.

The result of the negotiations between Mr. Greenshields and the Government was embodied in an agreement submitted to Parliament in the session of 1897. The terms of purchase were, briefly, as follows: The Company undertook to complete the road in the manner prescribed by the agreements and to pay off all existing encumbrances. The Government undertook to pay to the Company the sum of \$64,000 per annum for ninety-nine years. This purchase did not include the rolling stock, which was worth from \$60,000 to \$70,000. Mr. Fitzgerald, the expert accountant and actuary of the Department of Finance, gave evidence before the Committee that this rental of \$64,000 per annum for 99 years, on the basis of semi-annual payments, would be equivalent to a present cash payment of \$2,094,192, if capitalized at the rate of 2-7-8 per cent., the rate of interest which the Dominion pays for the money raised by its latest loan.

Upon the basis of Mr. Schrieber's estimate, the Company, in addition to the subsidies, had expended in the construction of the road \$884,644. The price of \$2,094,192, fixed by this agreement, would give the Company a profit of \$1,209,548.

If this agreement had been carried out Mr. Greenshields would have received from his investment of \$24,000 a net profit of more than \$400,000, and the total profit of himself and his associates in that case would not have been less than one million dollars.

The subservient Liberal majority in the House of Commons voted solidly to carry out this agreement which was subject to confirmation by act of Parliament. The Senate of Canada, however, refused to confirm the agreement, and in consequence of this the Government of the country entered into a further agreement at a much reduced price.

#### SECOND AGREEMENT.

By the second agreement it was provided that the Government should purchase the entire line consisting of 133 miles for \$1,600,000, and that the Company should expend upon the road, before it was handed over to the Government, not less than \$100,000.

Under the agreement of 1897, the Company had been required to expend certain moneys in improving the road. Of this sum of \$100,000 above mentioned, it appears that the sum of

\$65,795 was, in addition to any expenditure, required to be made by the Company under the agreement of 1897.

"These modifications, which were effected in consequence of the refusal of the Senate to confirm the agreement of 1897, partially illustrate the scandalous nature of that agreement:

As above explained, the present value of the annuity or rental for 99 years, provided for by the agreement of 1897, is the sum of..... \$2,094,192

Under the agreement of 1898 the Government has the right of purchase for the sum of..... \$1,600,000

From the latter sum is to be deducted, as above mentioned, the additional expenditure on the Drummond County Railway provided for by the agreement of 1898, estimated at the sum of ..... 65,795

1,534,205

Leaving a difference of..... \$559,987 in favour of the second agreement.

Upon the basis of Mr. Schrieber's estimate, already referred to, the Company have expended of their own moneys only the sum of \$884,644, and receiving under this modified agreement the net price of \$1,534,205, in addition to the price of the rolling stock, etc. (valued at \$70,000), the Company would make a net profit of between \$650,000 and \$700,000."

The net result, therefore, is that the Senate of Canada, by refusing confirmation of the agreement of 1897, forced the Government and the Company to reduce the price of the railway from \$2,094,192 to \$1,534,205, thus effecting a saving of \$559,987; but so enormous was the price originally fixed that even after this reduction has been made the Company will still make a clear net profit of between \$650,000 and \$700,000 on the sale of the road.

And yet the Government declared the first agreement to be the best possible, and forced their followers to vote for it in the House, and but for the Senate's action would have paid half a million more to the Greenshields road.

#### VALUE BASED ON EARNINGS.

The best test of the value of any road or other property is its earning power. The average net earnings of this road for the three years ending 30th June, 1897, was \$33,124.28, according to the Company's sworn returns. This would represent at 6 per cent. a valuation of \$552,071.33. The amounts expended upon the railway in the maintenance of the line, buildings and in general operating expenses, were abnormally small. If they had been kept up to the average proportion of any of the many well maintained railways of the Dominion, there would have been no net earnings, but a large annual deficit in

the working of the line. The chief source of revenue of this railway has been the lumber traffic, and until the forests are cut away this will afford considerable income. Outside of this—the freight and passenger traffic had been substantially stationary for the past six years.

According to an old proverb, "He is lucky who was born with a silver spoon in his mouth." According to the modern version, he is still luckier who, being a Liberal organizer, buys a bankrupt railway for the purpose of selling it to a Liberal Administration.

#### ALTERNATIVE ROUTE.

It was not at all necessary to purchase this railway in order that the Intercolonial might have access to Montreal. Both political parties were pledged to grant a subsidy to a bridge across the St. Lawrence River at Quebec. Tenders have now been called for the construction of that bridge, which will be an accomplished fact before many years. The Canadian Pacific Railway desire running powers over the Intercolonial from St. John, N.B., to Halifax, as well as the use of the Intercolonial terminals at Halifax. The Canadian Pacific Railway owns a line from Quebec to Montreal, as well as very valuable and extensive terminal facilities at Montreal. Without incurring one dollar of expenditure on capital account it would, undoubtedly, have been possible for the Government to make an equitable arrangement with the C. P. R., by which the Government would grant to the C. P. R. running powers over the I. C. R. from St. John to Halifax, and receive from the C. P. R. in return running powers from Quebec to Montreal. From the standpoint of the Government, the great objection to that course was that Mr. Greenshields in that case could not have sold the Drummond County Railway, and possibly Mr. Tarte could not have purchased La Patrie.

#### GRAND TRUNK AGREEMENT.

The Government also entered into an agreement in 1897 with the Grand Trunk Railway Company for running powers over the Grand Trunk Railway between Ste. Rosalie and St. Lambert, and for the use of the terminals of the Grand Trunk at Montreal. This agreement was subject to ratification by Parliament, and that ratification the Senate refused to give. In consequence of that refusal, a more favourable agreement was effected by the Government with the Grand Trunk Railway Company on the 1st day of February, 1898. The rental payment under the agreement of 1898 is \$3,000 per annum less than the rental payable under the agreement of 1897. This rental would be equivalent to a present cash payment of \$208,690. The Senate by its action saved the country on rental and purchase money alone, by rejecting the agreement of 1897 with the Drummond County and Grand Trunk Railways, the sum of \$768,677. But this is by no means all that the country was saved by the action of the Senate.

By the agreement of 1897, the Government

agreed to pay to the Grand Trunk Railway Company 5 per cent. annually upon one half of the actual cost of improvements effected by the Company upon its line and terminals. By the agreement of 1898, the Government pays interest at the rate of 4 per cent. only; and such interest is not payable upon one-half of the cost of such improvements, but only upon the proportion which the user of the Intercolonial Railway bears to the user of the Grand Trunk Railway Company, in respect of such lines and terminals. The user by the Intercolonial Railway has proved to be less than one-twentieth of the user by the Grand Trunk Railway of this line, and the terminals. It will be seen that the action of the Senate saved the country at least 19-20 of what the cost of these improvements would have been to the country under the agreement of 1897. The saving to the country, as a result of these and changes in other respects, while they cannot be calculated with exactness, would be the equivalent of a present cash payment of over one million, and probably several millions, of dollars.

The annual rental, which is payable by the Government to the Grand Trunk Railway Company for use of the 31 miles of line from Ste. Rosalie to St. Lambert, and of the terminals at Montreal, is the sum of \$140,000. This is an excessive amount, as it is based upon an estimate of equal user by the Grand Trunk Railway, and by the Intercolonial Railway of such portions of the terminal facilities as are required by the Intercolonial Railway; while, as a matter of fact, the user by the Grand Trunk Railway is many times greater than the user by the Intercolonial Railway.

The true explanation of so one-sided an agreement is that the Grand Trunk Railway Company was well aware of the determination of the Government to benefit its political friends by purchasing the Drummond County Railway, and knew that railway could not be acquired with any show of reason unless an agreement was also made with the Grand Trunk Railway for access to its terminals at Montreal. Therefore, the G. T. R. could exact a very large rental.

For the purpose, therefore, of assisting Liberal organizers directly and their superiors indirectly the Government has seen fit not only to purchase the Drummond County Railway at an absurdly high figure, but also to enter into an agreement by which the country is bound for 99 years to pay to the Grand Trunk Railway Company the absurdly high rental of \$140,000, for a very limited use of 31 miles of railway and terminals at Montreal.

Do the electors of Canada feel wealthy enough to have their revenues applied towards enriching Liberal organizers and politicians? Are they content to toil and wait in order that Mr. Greenshields and his friends may become quickly rich?

If so, vote for Laurier, Tarte, Greenshields and the Drummond Deal.

If not, vote down corruption and dishonesty, and uphold honest government and fair dealing in all matters of administration.